HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Financial Statements

December 31, 2018
(With summarized comparative financial information as of and for the year ended December 31, 2017)

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

To the Board of Directors
Hadassah, The Women's Zionist Organization of America, Inc.:

We have audited the accompanying consolidated financial statements of Hadassah, The Women's Zionist Organization of America, Inc. and related entities (the Organization), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hadassah, The Women's Zionist Organization of America, Inc. and related entities as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(q) to the consolidated financial statements, in 2018, the Organization adopted new accounting guidance, Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustments to adopt ASU 2016-14. As part of our audit of the 2018 consolidated financial statements, we also audited the adjustments described in note 2(q) that were applied to adopt ASU No. 2016-14 retrospectively in the 2017 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

July 30, 2019

HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Balance Sheet

December 31, 2018
(with comparative financial information as of December 31, 2017)

Assets		**2018**	**2017**
Cash and cash equivalents	$	56,679,167	91,168,594
Accounts receivable for medical services, net (note 5)		135,714,762	121,270,297
Accrued interest income and other receivables		5,913,565	933,863
Prepaid expenses and other assets (notes 10 and 15)		52,970,200	47,617,384
Contributions and bequests receivable, net (notes 3 and 6)		26,828,012	21,834,896
Investments (notes 3 and 4)		661,873,038	700,164,176
Investments of charitable gift annuities held by Hadassah (notes 3 and 4)		46,765,741	57,665,646
Assets of trusts and other split-interest agreements held by others (notes 3 and 4)		20,558,402	29,481,953
Property, plant, and equipment, net (notes 7, 13 and 14)		740,453,666	792,936,272
Total assets	$	1,747,756,553	1,863,073,081
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 10)	$	165,311,078	163,613,480
Short-term debt (note 12)		4,703,597	5,099,309
Liabilities under deferred giving and annuity trust arrangements		44,394,359	46,415,068
Malpractice and other liabilities (note 10)		108,972,336	117,282,657
Accrued employees' benefits liabilities (note 11)		135,295,072	147,361,482
Advance from Government of Israel (note 15)		5,658,208	6,134,231
Loan from Government of Israel (note 15)		26,613,086	28,852,035
Long-term debt (note 13)		10,610,105	16,602,037
Total liabilities		501,557,841	531,360,299
Commitments and contingencies (note 14)			
Net assets (notes 8 and 9):			
Without donor restrictions		890,670,858	961,515,125
With donor restriction		355,527,854	370,197,657
Total net assets		1,246,198,712	1,331,712,782
Total liabilities and net assets	$	1,747,756,553	1,863,073,081

See accompanying notes to consolidated financial statements.

HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Statement of Activities

December 31, 2018

(with summarized comparative financial information for the year ended December 31, 2017)

	2018			2017
	Without donor restrictions	With donor restrictions	Total	Total
Revenue:				
Patient service revenue (note 5)	$ 641,911,294	—	641,911,294	603,811,187
Contributions and bequests (note 3)	35,663,582	83,045,498	118,709,080	133,644,478
Change in value of split-interest agreements	(525,656)	(7,437,946)	(7,963,602)	1,073,207
Investment return, net	(16,714,948)	(4,657,376)	(21,372,324)	70,699,776
Net income from recovery agreement (note 15)	26,209,286	—	26,209,286	25,948,499
Income from affiliation agreement	10,779,210	—	10,779,210	9,558,188
Government grants	1,009,898	—	1,009,898	95,526
Other revenue	11,400,463	25,000	11,425,463	10,170,636
Net assets released from restrictions	77,244,193	(77,244,193)	—	—
Total revenue	786,977,322	(6,269,017)	780,708,305	855,001,497
Expenses:				
Program services:				
Medical services	624,828,143	—	624,828,143	598,453,443
Education and research	64,753,099	—	64,753,099	66,321,289
Youth programs	1,354,451	—	1,354,451	1,507,656
Magazine	1,811,465	—	1,811,465	1,811,995
Membership services	7,374,672	—	7,374,672	7,970,805
Communications and public affairs	3,097,522	—	3,097,522	2,831,307
Total program services	703,219,352	—	703,219,352	678,896,495
Supporting services:				
Fundraising	11,247,244	—	11,247,244	11,313,281
Management and general	93,454,551	—	93,454,551	84,329,736
Total supporting services	104,701,795	—	104,701,795	95,643,017
Total expenses	807,921,147	—	807,921,147	774,539,512
(Decrease) increase in net assets before foreign currency translation (loss) gain and other changes	(20,943,825)	(6,269,017)	(27,212,842)	80,461,985
Foreign currency translation (loss) gain	(49,183,193)	(9,118,035)	(58,301,228)	67,348,850
Reclassification of funds and other changes	(717,249)	717,249	—	(645,000)
(Decrease) increase in net assets	(70,844,267)	(14,669,803)	(85,514,070)	147,165,835
Net assets at beginning of year	961,515,125	370,197,657	1,331,712,782	1,184,546,947
Total net assets, end of year	$ 890,670,858	355,527,854	1,246,198,712	1,331,712,782

See accompanying notes to consolidated financial statements.

HADASSAH, THE WOMEN'S ZIONIST
ORGANIZATION OF AMERICA, INC.
AND RELATED ENTITIES

Consolidated Statement of Functional Expenses

December 31, 2018
(with summarized comparative financial information for the year ended December 31, 2017)

	Program services							Supporting services				
	Medical services	**Education and research**	**Youth programs**	**Magazine**	**Membership services**	**Communications and public affairs**	**Total program services**	**Fundraising**	**Management and general**	**Total supporting services**	**2018 Total expenses**	**2017 Total expenses**
Salaries, employee benefits and taxes	$ 430,982,007	45,454,703	—	702,594	4,190,694	1,925,387	483,255,385	7,255,111	63,184,699	70,439,810	553,695,195	527,163,946
Grants	1,083,503	778,535	1,316,349	—	1,757,427	—	4,935,814	—	—	—	4,935,814	4,980,393
Medical supplies	84,312,842	6,249,866	—	—	—	—	90,562,708	—	—	—	90,562,708	91,579,848
Professional fees	4,619,651	3,906,331	31,318	43,420	6,318	186,360	8,793,398	1,190,508	10,127,093	11,317,601	20,110,999	18,879,197
Printing and publications	99,470	110,060	2,512	492,759	28,798	85,760	819,359	583,377	127,243	710,620	1,529,979	1,610,790
Postage, shipping, fulfillment and supplies	1,144,130	254,983	431	376,815	17,804	664	1,794,827	193,356	1,246,632	1,439,988	3,234,815	2,429,516
Occupancy, security and utilities	28,509,752	1,081,751	—	83,255	791,807	150,657	30,617,222	627,377	4,274,668	4,902,045	35,519,267	34,163,004
Equipment rental and maintenance	23,026,976	2,268,417	—	5,993	35,604	9,988	25,346,978	74,907	2,995,728	3,070,635	28,417,613	23,347,629
Conferences, meetings, and conventions	60,287	1,681,581	—	475	93,170	170	1,835,683	80,371	816,615	896,986	2,732,669	1,874,427
Travel expenses	4,344,486	358,176	183	4,023	194,497	40,152	4,941,517	245,151	528,409	773,560	5,715,077	5,695,449
Public relations	459,385	215,201	2,836	6,339	2,990	390,227	1,076,978	148,136	1,102,878	1,251,014	2,327,992	2,362,850
Information technology and communication	512,441	56,895	822	5,777	16,810	116,224	708,969	78,491	1,389,198	1,467,689	2,176,658	2,118,989
Insurance	13,032,201	165,184	—	28,534	83,366	47,556	13,356,841	198,135	1,561,401	1,759,536	15,116,377	12,508,373
Depreciation	30,069,167	1,903,228	—	49,554	144,779	90,361	32,257,089	343,441	4,655,722	4,999,163	37,256,252	36,338,081
Other	2,571,845	268,188	—	11,927	10,608	54,016	2,916,584	228,883	1,444,265	1,673,148	4,589,732	9,487,020
Total expenses	$ 624,828,143	64,753,099	1,354,451	1,811,465	7,374,672	3,097,522	703,219,352	11,247,244	93,454,551	104,701,795	807,921,147	774,539,512

See accompanying notes to consolidated financial statements.

HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Statement of Cash Flows

Year ended December 31, 2018
(with comparative financial information for the year ended December 31, 2017)

	2018	2017
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (85,514,070)	147,165,835
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Net depreciation (appreciation) in fair value of investments	27,335,939	(65,652,455)
Foreign currency translation loss (gain)	58,301,228	(67,348,850)
Depreciation	37,256,252	36,338,081
Recovery of bad debt	(3,072,641)	(10,372,077)
Contributions and bequests restricted for capital and endowment	(26,018,299)	(32,050,888)
Change in value of split-interest agreements	7,963,602	(1,073,207)
Changes in operating assets and liabilities:		
Accounts receivable for medical services	(23,557,134)	33,850,726
Accrued interest income and other receivables	(4,979,702)	806,915
Prepaid expenses and other	(9,418,386)	19,574,486
Contributions and bequests receivable	(3,222,256)	7,754,908
Accounts payable and accrued expenses	15,529,673	(1,223,701)
Malpractice and other liabilities	824,221	(741,530)
Accrued employees benefits liabilities	(657,546)	(1,127,406)
Advance from Government of Israel	—	(11,192,913)
Net cash (used in) provided by operating activities	(9,229,119)	54,707,924
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(46,238,088)	(40,786,216)
Change in accrued expenses for fixed assets	(1,218,027)	2,494,900
Purchase of investments	(166,300,166)	(297,134,599)
Proceeds from sale of investments	172,395,872	262,940,771
Net cash used in investing activities	(41,360,409)	(72,485,144)
Cash flows from financing activities:		
Repayment of debt	(4,901,507)	(4,945,588)
Contributions and bequests restricted for capital and endowment	26,018,299	32,050,888
Increase in contributions receivable restricted for capital and endowment	—	652,262
Decrease in liabilities under deferred giving and annuity trust arrangements, net of change in related assets	(1,060,761)	(294,468)
Net cash provided by financing activities	20,056,031	27,463,094
Effect of exchange rate changes on cash	(3,955,930)	2,511,266
Net (decrease) increase in cash and cash equivalents	(34,489,427)	12,197,140
Cash and cash equivalents at beginning of year	91,168,594	78,971,454
Cash and cash equivalents at end of year	$ 56,679,167	91,168,594
Supplemental disclosure:		
Interest paid	$ 581,004	1,081,235

See accompanying notes to consolidated financial statements.

(1) Organization

Hadassah, The Women's Zionist Organization of America, Inc. (HWZOA) is a not-for-profit organization under the U.S. Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes under Internal Revenue Code Section 501(a). The accompanying consolidated financial statements include the accounts of HWZOA and its related entities (collectively, Hadassah or the Organization). Related entities comprise Hadassah Medical Relief Association, Inc. (HMRA), Hadassah International, Ltd. (a Bermuda corporation) (HIL), The Hadassah Foundation, Inc. (Hadassah Foundation), The Hadassah Office in Israel (an Israeli not-for-profit entity) (HOI), Fabulous Finds LLC (a for-profit entity) (Fabulous Finds), Hadassah Medical Organization (HMO), Hadassah International Israel (an Israeli not-for-profit) (HII), Hadassah Stiftung Deutschland (Hadassah Foundation Germany) and Hadassah Mexico, A.C.

HWZOA is a volunteer organization that inspires a passion for and commitment to its partnership with the land and people of Israel. It enhances the health of people worldwide through its support of medical care and research at HMO in Jerusalem. HWZOA empowers its members and supporters as well as youth in Israel and America through opportunities for personal growth, education, advocacy, and Jewish continuity.

In Israel, in addition to supporting activities at HMO, HWZOA and HMRA support a variety of projects conducted by unconsolidated entities. Hadassah Academic College provides academic degree programs. Hadassah-supported Youth Aliyah villages provide housing, education, and support to disadvantaged Israeli and immigrant youth. Together with the Jewish National Fund, HWZOA and HMRA build parks and reservoirs, make parks disabled-accessible, and support reforestation projects.

In the United States, HWZOA members are engaged in a variety of educational, advocacy, and community service initiatives. Education services include women's health and wellness programs for heart health and breast cancer. Hadassah members help to shape public policy through advocacy work on important issues, including U.S.-Israel relations, women's health equity, and other issues related to the Jewish community. HWZOA is a staunch advocate against the Boycott, Divestment and Sanctions movement and all efforts aimed to tarnish and delegitimize the State of Israel. In communities nationwide, HWZOA members take the lead on advocating for legislation that would provide funds for materials, curriculum and teacher training to educate students throughout the country on the devastating effects of the Holocaust and other hate crimes.

HMRA is a not-for-profit corporation incorporated in the state of New York on June 10, 1925 whose mission is identical to HWZOA. The members of HMRA consist of the National Board of HWZOA (Board of Directors), the Board of Directors of HMRA consists of the members of the Executive Committee of HWZOA and the Officers of HMRA are the National Officers of HWZOA.

HIL is a Bermuda exempted company limited by guaranty incorporated in August 1995, which coordinates Hadassah's international units whose purposes are to raise funds for HMO and develop exchange programs between HMO and medical institutions around the world. The members of the board of HIL are composed of members of the National Board of HWZOA, as well as international representatives from HIL units. The sole corporate member is HMRA.

(Continued)

Hadassah Foundation, founded in 1998, is a supporting organization of HWZOA and HMRA and engages in activities that support or benefit HWZOA and HMRA and for the support of such other charitable organizations whose operations are consistent with HWZOA's and HMRA's charitable mission of supporting innovative and creative programs in Israel and within the American Jewish community which focus on issues of particular importance to women, their health, education and well-being, and the health and well-being of their families.

HOI is registered in Israel as a Public Benefit Company. HWZOA and HMRA are two of its shareholders. HOI's primary objectives are to act on behalf of and in the interests of HWZOA, to promote HWZOA and its related institutions in Israel to promote activities on behalf of HWZOA in the areas of health, education and welfare throughout Israel to seek fundraising opportunities and to represent HWZOA to the Israeli public.

Fabulous Finds, founded in 2006, is managed by HWZOA and was created for the purpose of selling donated items on eBay. Fabulous Finds is currently inactive.

HMO, located in Israel, is a provider of medical care, rehabilitation, and medical research. HMO is engaged primarily in providing medical services at two medical centers in Jerusalem – Ein Kerem and Mount Scopus. HMO is a nonsectarian institution providing state-of-the-art treatment to nearly one million patients a year at its two hospitals, a community health center, and outpatient clinics. HMO has been recognized under the Israeli Income Tax Ordinance (New Version) as a "public organization" and as a "not-for-profit organization" under the Value Added Tax Law – 1975. In accordance with HMO's Articles of Association and pursuant to Section 345 of the State of Israel Companies Law, 1999 (the Companies Law), HMO is a public benefit company. Pursuant to the Companies Law, a public benefit company operates only for public purposes, its income and property are applied solely toward the objects of the public benefit company, and it is prohibited from making the distribution of profits or any other distribution to its members (the Distribution Prohibition). HMRA is the sole corporate member of HMO, and HWZOA's designees are members of HMO. HWZOA and HMRA have control over HMO and are required to operate under requirements of the above-mentioned Articles of Association and the Distribution Prohibition, as well as under the Recovery Plan and Recovery Agreement entered into in 2014 that is in effect for seven years until December 31, 2020 (note 15). HMO owns and controls four wholly owned subsidiaries: Hadasit Medical Research and Development Company Ltd, S.R.Y (Medical Services) Ltd., Hadassah Medical Ltd., and the Research Fund of the Hadassah Medical Organization Amuta (R.A.).

HII is registered in Israel as a Public Benefit Company. Included among HII's shareholders are HWZOA, HMRA, HIL and HOI. The Company's primary objectives are to raise donations in Israel for HWZOA's operations in Israel and for HMO and to assist in the promotion and development of healthcare services in Israel.

Hadassah Stiftung Deutschland (Hadassah Foundation Germany) is a nonprofit organization founded by HMRA in 2016 under German law whose purpose is to raise funds and direct these funds to promote science and research, medical, and public healthcare, as well as professional training by a tax-privileged or a public corporation. The authorized representatives of HMRA (and therefore of Hadassah Foundation Germany) are currently officers of HWZOA.

(Continued)

Hadassah Mexico, A.C. is a nonprofit association founded in 1999 in Mexico. The Associates of Hadassah Mexico, A.C. are HWZOA board members who elect the Board of Hadassah Mexico, A.C. The Board of Hadassah Mexico, A.C. includes members of the Board of HWZOA. The sole corporate member of Hadassah Mexico, A.C. is HWZOA. The purpose of Hadassah Mexico, A.C. is similar to the purpose of HIL regarding HMO and includes promotional activities and the development of programs, lectures, etc. in Mexico and pursuant to Mexican law.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by Hadassah are described below:

(a) Basis of Presentation

The consolidated financial statements do not include the financial position or changes in net assets of the Hadassah chapters or the international affiliates (autonomous geographical units) except as mentioned in note 1. All material intercompany transactions have been eliminated in consolidation.

The Organization's consolidated financial statements are prepared on the accrual basis of accounting. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expiration of net assets with donor restrictions is reported as net assets released from restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions including board-designated funds (note 8).

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions or the passage of time, or net assets that stipulate that the principal be maintained permanently but permit the Organization to expend part or all of the income and gains derived therefrom.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these consolidated financial statements include the fair value of investments, estimated net realizable value of receivables, valuation of medical malpractice liability, liabilities under deferred giving and annuity trust arrangements, HMO accrued employees' benefits liabilities, foreign currency translation gain, and functional expense allocations. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents consist of highly liquid debt instruments purchased with an original maturity of three months or less, except for such investments purchased by the Organization's investment managers as part of their long-term investment strategies, amounts that are restricted by donors for specific purposes or amounts designated by HMO management for specific purposes. At December 31, 2018 and 2017, cash and cash equivalents consist primarily of money market instruments of approximately $57,000,000 and $91,000,000, respectively. Cash and cash equivalents held at HMO approximated $40,000,000 and $61,000,000 at December 31, 2018 and 2017, respectively.

(d) Accounts Receivable for Medical Services (HMO)

Accounts receivable for medical services are recorded at the reimbursed or contracted amounts and do not bear interest. HMO grants credit to patients and generally does not require collateral or other security. The allowance for doubtful accounts is HMO's best estimate of probable credit losses in HMO's existing accounts receivable for medical services. HMO determines the allowance based on historical collection experience.

(e) Fair Value of Financial Instruments

The Organization follows the provisions of accounting standards for *Fair Value Measurement and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. This guidance allows, as a practical expedient, for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent as reported by the investment managers. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment underlying assets and liabilities.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are published or unadjusted quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date

Level 2 – Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Inputs are unobservable inputs for the asset or liability

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement.

(f) Investments

Investments in debt and equity securities with a readily determinable fair value are reported at fair value based upon quoted or published market prices. Alternative investments that do not have a readily determinable fair value are stated at fair value as a practical expedient based on the net asset value reported by investment managers and general partners. Those net asset values may differ significantly from values that would have been used had a ready market for these securities existed. The Organization reviews and evaluates the values provided by the investment managers and general partners and agrees with the valuation methods and assumptions used in determining the net asset value of these alternative investments.

(g) Contributions

Contributions, including unconditional promises to give (pledges), are reported as revenue in the period received or pledged. Contributions with purpose or time restrictions are reported as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in net assets with donor restrictions.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions receivable, less an allowance for uncollectible amounts, are reported at their net present value. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution.

(h) Government Grants

Government grants and contracts are accounted for as exchange transactions and revenue is recognized as earned.

(i) Deferred Giving Arrangements

The Organization enters into deferred giving agreements with donors to accept and administer charitable gift annuities, charitable remainder trusts, charitable lead trusts, unitrusts, and pooled income funds, the beneficiaries of which include the Organization. The Organization manages and invests these assets on behalf of these beneficiaries until the agreement expires and the assets are distributed. In addition, the Organization is the beneficiary of other deferred giving agreements that are held and administered by others.

Such split-interest agreements provide for payments to the donors or their beneficiaries based upon either the income earned on related investments or the specified annuity amounts. Assets held under these arrangements are reported at fair value in the accompanying consolidated balance sheets as assets of trusts and other split-interest agreements held by others, except for charitable gift annuities, which are reported as investments. Contribution revenue is recognized at the date the trust or annuity contract is established after recording liabilities for the present value of the estimated future payments expected to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the life expectancy of the donor or beneficiary, amortization of the discount, and other changes in the estimates of future payments.

(j) Contributed Services

A substantial number of volunteers have donated significant amounts of their time to the Organization's fund-raising activities, programs, and administrative services. Since the criteria for recognizing revenues for contributed services have not been met, no revenue or expense has been recognized in the accompanying consolidated financial statements.

(k) Property, Plant, and Equipment and Depreciation

Property, plant, and equipment are recorded at cost or fair value at date of gift if contributed.

Depreciation on fixed assets is recognized on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and building improvements	15 to 50 years
Furniture and equipment (including computer equipment and software)	3 to 15 years

(l) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment charges have been recognized for the year ended December 31, 2018 or 2017.

(m) Patient Service Revenue (HMO)

Net patient service revenue is recognized in the period services are performed and consist primarily of net patient service revenue that is reported at estimated net realizable amounts from Sick Funds, patients, and others for services rendered, and include an estimated reduction for reimbursement caps (note 5).

(n) Functional Expenses

The Organization presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. Expenses attributed to multiple categories are allocated primarily based on headcount.

(o) Accounts Payable and Accrued Expenses at HMO

Accounts payable and accrued expenses at HMO approximated $156,199,000 and $155,756,000 at December 31, 2018 and 2017, respectively.

(p) Tax Status

The Organization recognizes the effect of income tax provisions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under Internal Revenue Code Section 511. Taxes on disallowed expenses and Value Added Tax paid were included in the sections of the expenses on which the tax was imposed. As of December 31, 2018 and 2017, the Organization does not have any uncertain tax positions or any unrelated income tax liability, which would have a material impact on its consolidated financial statements.

(q) Recently Adopted Accounting Pronouncement

During 2018, the Organization adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profits Entities* (ASU 2016-14). ASU 2016-14 reduces the number of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets of $267,143,762 and permanently restricted net assets of $103,053,895 in 2017. The guidance also includes recognition of underwater endowment funds as a reduction of net assets with donor restrictions. Additionally, it expands the quantitative and qualitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both their natural and functional classification in one location. The Organization applied the changes retrospectively.

(r) Future Accounting Standards

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) – This ASU introduces a single framework for revenue recognition under which revenue recognized is reflective of the consideration to which an entity expects to be entitled in exchange for goods and services. The Organization plans to adopt ASU No. 2014-09 for the year ending December 31, 2019 and continues to evaluate the impact of adopting this guidance on its consolidated financial statements.

The FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* – This ASU is intended to update current guidance about whether a transfer of cash or other assets, or the reduction, settlement, or cancellation of liabilities, should be accounted for as a contribution or exchange transaction. The ASU establishes criteria for determining whether the resource provider is receiving commensurate value in return for those assets and that determination then dictates whether the organization follows contributions guidance or exchange transaction guidance and determining whether a contribution is conditional. The Organization plans to adopt ASU No. 2018-08 for the year ended December 31, 2019 and continues to evaluate the impact of adopting this guidance on its consolidated financial statements.

The FASB issued ASU No. 2016-02, *Leases* (Topic 842) – This guidance is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated balance sheet and disclosing key information about leasing agreements. This ASU is effective for the year ending December 31, 2020.

(s) Prior-Year Summarized Financial Information

The accompanying consolidated statement of activities is presented with certain prior-year summarized consolidated financial information for comparative purposes only. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

(t) Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

(3) Fair Value

Unconditional promises to give are recognized initially at fair value as contributions and bequests revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

The Organization invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

(Continued)

(4) Investments

At December 31, 2018, investments (excluding those associated with charitable gift annuities) at fair value consist of the following:

	Fair value	Level 1
Assets:		
Investments:		
Money market instruments	$ 145,427,469	145,427,469
State of Israel bonds	45,844,986	45,844,986
U.S. equity	29,861,635	29,861,635
International equity	24,222,139	24,222,139
Mutual funds – U.S. equity	95,384,831	95,384,831
Mutual funds – fixed income	67,007,533	67,007,533
Mutual funds – emerging market equities	15,674,321	15,674,321
Mutual funds – global equity	43,784,598	43,784,598
Corporate bonds	4,902,663	4,902,663
Other	1,459,482	1,459,482
	473,569,657	$ 473,569,657
Investments measured at net asset value (or its equivalent):		
Event-driven equities	18,179,029	
Absolute return	41,959,602	
Real estate	26,980,060	
Private equity	34,307,704	
Opportunistic fixed income	30,695,101	
Non-U.S. developed and emerging market equities	24,679,085	
Equity hedge	11,502,800	
Total investments measured at net assets value (or its equivalent)	188,303,381	
Total investments	$ 661,873,038	

At December 31, 2018, investments of charitable gift annuities held by Hadassah at fair value consist of the following:

		Fair value	Level 1
Money market instruments	$	2,184,899	2,184,899
Mutual funds – U.S. equity		16,386,666	16,386,666
Mutual funds – fixed income		12,265,310	12,265,310
Mutual funds – global equity		11,868,227	11,868,227
Mutual funds – REITs		1,921,145	1,921,145
Mutual funds – commodities		2,139,494	2,139,494
Total investments	$	46,765,741	46,765,741

At December 31, 2018, assets held in trusts by others at fair value consist of the following:

		Fair value	Level 1	Level 2	Level 3
Assets held in trust by others:					
Money market instruments	$	3,204,693	773,553	—	2,431,140
Mutual funds – equity		5,929,196	5,929,196	—	—
Mutual funds – fixed income		3,831,248	3,831,248	—	—
Large cap funds		3,268,699	3,268,699	—	—
Small cap funds		1,096,999	1,096,999	—	—
International equity		2,738,503	2,738,503	—	—
REITS		316,385	316,385	—	—
Other debt securities		172,679	172,679	—	—
Total assets held in trust by others	$	20,558,402	18,127,262	—	2,431,140

At December 31, 2017, investments (excluding those associated with charitable gift annuities) at fair value consist of the following:

	Fair value	Level 1
Assets:		
Investments:		
Money market instruments	$ 139,364,778	139,364,778
State of Israel bonds	50,484,631	50,484,631
U.S. equity	20,335,714	20,335,714
International equity	26,612,684	26,612,684
Mutual funds – U.S. equity	109,013,222	109,013,222
Mutual funds – fixed income	86,051,823	86,051,823
Mutual funds – emerging market equities	18,386,963	18,386,963
Mutual funds – global equity	49,539,023	49,539,023
Corporate bonds	4,211,820	4,211,820
Other	3,196,789	3,196,789
	507,197,447	$ 507,197,447
Investments measured at net asset value (or its equivalent):		
Event-driven equities	27,256,151	
Absolute return	22,251,755	
Real estate	29,672,216	
Private equity	33,219,388	
Opportunistic fixed income	30,534,135	
Non-U.S. developed and emerging market equities	28,919,164	
Equity hedge	21,113,920	
Total investments measured at net assets value (or its equivalent)	192,966,729	
Total investments	$ 700,164,176	

At December 31, 2017, investments of charitable gift annuities held by Hadassah at fair value consist of the following:

	Fair value	Level 1
Money market instruments	$ 1,522,843	1,522,843
Mutual funds – U.S. equity	24,605,317	24,605,317
Mutual funds – fixed income	12,780,625	12,780,625
Mutual funds – global equity	16,029,323	16,029,323
Mutual funds – REITs	2,727,538	2,727,538
Total investments	$ 57,665,646	57,665,646

At December 31, 2017, assets held in trusts by others at fair value consist of the following:

	Fair value	Level 1	Level 2	Level 3
Assets held in trust by others:				
Money market instruments	$ 3,837,996	1,406,856	—	2,431,140
Mutual funds – equity	12,741,478	12,741,478	—	—
Mutual funds – fixed income	3,710,284	3,710,284	—	—
Large cap funds	4,004,019	4,004,019	—	—
Small cap funds	1,473,702	1,473,702	—	—
International equity	3,242,615	3,242,615	—	—
REITS	456,748	456,748	—	—
Other debt securities	15,111	15,111	—	—
Total assets held in trust by others	$ 29,481,953	27,050,813	—	2,431,140

Alternative investments and certain institutional equity funds contain restrictions with required written notice ranging from 6 days to 90 days. In addition, certain of these investments are restricted by initial lockup periods.

The following table summarizes the composition of investments measured at net asset value fair value (or its equivalent) by the various redemption provisions as of December 31, 2018:

	December 31, 2018	
	Amount	**Notice period**
Redemption period:		
Monthly:		
Non-U.S. developed and emerging market equities	$ 24,679,085	6 days
Quarterly:		
Opportunistic fixed income	30,695,101	60 days
Event-driven equities	18,179,029	65 days
Equity hedge	11,502,800	45 days
Annual:		
Absolute return	13,496,072	90 days
Lockup:		
Absolute return	28,463,530	
Real estate	26,980,060	
Private equity	34,307,704	
Lockup subtotal	89,751,294	
Total	$ 188,303,381	

The amounts subject to redemption restrictions for the lockup category are set to expire as follows:

	Amount
Year ending:	
2019	$ 26,351,871
2020	—
2021 and beyond	63,399,423
	$ 89,751,294

Investments held at HMO approximated $195,950,000 and $193,724,000 at December 31, 2018 and 2017, respectively.

The Organization's alternative investments follow seven basic strategies as follows:

(a) Event-Driven Equities

This strategy involves investing in companies experiencing significant change due to changing markets and business conditions, such as companies facing bankruptcy, or in need of capital restructuring, and in companies whose operations can benefit by restructuring the consolidated balance sheets, typically through debt to equity conversion. Upon recovery of target-company, an exit strategy is utilized and, depending on market conditions, may include sale of the company, sale of securities, or sale of assets.

This strategy may also involve purchasing severely discounted securities, such as subprime securities, asset-backed securities, collateralized debt obligations, and whole loans, against perceived intrinsic value.

(b) Non-U.S. Developed and Emerging Market Equities

This is a long-only equity strategy that invests in companies, located in Non-U.S. developed and emerging market countries, with strong financial characteristics, earnings, consistency, attractive long-term free cash flow yield, and high returns on invested capital.

(c) Private Equities

Private equity refers to equity securities that are not regulated by a governing body, such as the Securities and Exchange Commission. These securities are not publicly traded and are available only to "sophisticated" investors, such as pension plans, financial institutions, endowments, and high-net-worth individuals. Private equity investments are generally structured as limited partnerships with the private equity fund manager serving as the general partner and the investors serving as limited partners. Private equity investments are primarily made by private equity firms, venture capital firms, or angel firms, each with their own set of goals, preferences, and investment strategies, yet each providing working capital to a target company to nurture expansion, new product development, or restructuring of the company's operations, management, or ownership.

(d) Real Estate

This strategy involves investing in private properties, which may include residential, retail, industrial, hotel, assisted living, and office either directly or through a diversified fund structure.

(e) Opportunistic Fixed Income

This strategy focuses primarily on seasoned residential mortgage-backed securities using structured credit products, including subprime residential mortgage-backed security, home equity line of credits, asset-backed security collateralized debt obligations, commercial loans, etc. The primary goal is to maximize total return. Other fixed income strategies include investments in high-yield bonds and leveraged loans with a primary goal of generating current income with the potential for price appreciation.

(f) Absolute Return

Absolute return hedge fund strategies include multistrategy hedge funds, fixed income relative value funds and distressed-focused funds. Broadly defined, absolute return strategies emphasize consistency of performance and low correlation to the broad market indices (typically defined by the S&P 500 Index).

(g) Equity Hedge

Hedged equity managers typically manage a portfolio of domestic and international equities and have the ability to manage both long and short positions in equity securities. Such investments would be included to provide exposure to the equity markets with somewhat lower volatility than "long-only" equity investments. It is expected that hedged equity strategies would have a closer correlation to the broad equity markets than absolute-return focused strategies.

Certain limited partnerships carry minimum subscription or capital commitments. At December 31, 2018 and 2017, outstanding future capital commitments amount to approximately $58,473,000 and $60,619,000, respectively.

The Organization permits certain investment managers to use nonspeculative off-balance-sheets forward foreign currency contracts to manage the currency risk inherent in owning securities denominated in foreign currencies. Such contracts involve, to varying degrees, risk of loss arising from either the potential change in market prices (market risk) or from the possible inability of the counterparties to meet the terms of their contracts (credit risk). The Organization did not purchase or sell any foreign currencies contracts during the years ended December 31, 2018 and 2017.

(5) Patient Service Revenue and Accounts Receivable for Medical Services

Patient service revenue consisted of the following:

		2018	2017
Sick Funds	$	446,210,720	423,012,069
Government of Israel		68,448,318	67,992,187
Healthcare Maintenance Organization		72,650,680	57,980,407
Other		54,601,576	54,826,524
Total	$	641,911,294	603,811,187

According to the National Health Insurance Act (1994), every Israeli resident (as defined in the law) is entitled to receive certain health services (including hospitalization) included in a basic defined package funded by the State of Israel. The program is administered mainly through Clalit Health Services, Maccabi Health Services, Leumit, and Meuhedet (collectively referred to as the Sick Funds), which are responsible to provide or fund those services to residents registered.

HMO receives reimbursement from the Sick Funds for services provided (fee for service) based on a price list published by the Ministry of Health. The manner of accounting and cash flows between the Sick Funds and the Hospital is regulated by the Ministry of Health. The maximum rates for most of the health services – fee for day of hospitalization, fees for differential activities, emergency charges and various services are determined by the Inter-ministerial committee of the Israeli government. In addition, the Israeli government sets a consumption cap on collections by a hospital from each Sick Fund. All services purchased in public hospitals by sick funds are reduced by 18.5% up to the amount of the consumption cap. Beyond the cap, the price is an average of 35% of the full price but can be even lower depending on the agreements with each Sick Fund.

As of December 31, 2018, HMO had signed cooperation agreements with all Sick Funds. Approximately 70% of HMO's patient service revenue is from the Sick Funds for the years ended December 31, 2018 and 2017.

As of December 31, 2018, HMO had signed cooperation agreements with Clalit, Meuhedet, and Leumit health funds. The service, pricing and billing arrangements between HMO and the sick funds is determined by regulation approved by the Israeli government.

HMO and others in the healthcare industry are subject to certain inherent risks based on substantial dependence on revenue derived from a limited number of sources and the pressure to increase discounts on published rates (reduce reimbursement) for healthcare services being provided. Additionally, the current economic environment increases collection risk of account receivable. The ultimate outcome of these factors and other market changes cannot presently be determined.

Accounts receivable for medical services consisted of the following:

		2018	2017
Sick Funds	$	113,166,293	105,193,943
Government of Israel		8,666,285	7,807,938
Healthcare Maintenance Organizations		22,238,693	19,266,524
Other		5,381,964	5,250,493
Less allowance for doubtful accounts		(13,738,473)	(16,248,601)
	$	135,714,762	121,270,297

As of December 31, 2018 and 2017, approximately 76% of gross receivables are from the various Sick Funds in Israel.

Amounts are charged to allowance for doubtful accounts after reasonable collection efforts have been exhausted. The following reflects the estimates made and the changes reflecting those estimates:

Allowance for doubtful accounts at December 31, 2016	$	(22,666,948)
Bad debt recovery		6,418,347
Allowance for doubtful accounts at December 31, 2017		(16,248,601)
Bad debt recovery		2,510,128
Allowance for doubtful accounts at December 31, 2018	$	(13,738,473)

Write-offs are primarily related to patients who are unable or unwilling to pay for the portion of the bill representing their financial responsibility.

(6) Contributions and Bequests Receivable

Contributions and bequests receivable consist of the following at December 31, 2018 and 2017:

		2018	2017
Amounts expected to be collected in:			
Less than one year	$	16,003,713	12,858,622
One to five years		12,429,850	13,897,642
Over five years		4,955,303	3,097,955
		33,388,866	29,854,219
Less:			
Allowance for uncollectible amounts		(5,965,903)	(7,452,816)
Discount to net present value (0.875%–2.625%)		(594,951)	(566,507)
	$	26,828,012	21,834,896

Of the total amounts expected to be collected in less than one year, $12,849,614 and $9,185,103 represents bequests receivable at December 31, 2018 and 2017, respectively.

Gross contributions receivable at December 31, 2018 and 2017 include amounts due from the five largest donors, totaling approximately $11,500,802 and $10,304,160, respectively.

(7) Property, Plant, and Equipment

At December 31, 2018 and 2017, property, plant, and equipment consist of the following:

		2018	2017
Land	$	301,479	301,479
Building and building improvements		1,236,836,613	1,321,568,088
Furnishings and equipment		234,344,575	234,627,111
Computer equipment and software		37,938,564	48,300,385
		1,509,421,231	1,604,797,063
Less accumulated depreciation		(768,967,565)	(811,860,791)
Property, plant, and equipment, net	$	740,453,666	792,936,272

Property, plant, and equipment, net held at HMO approximated $735,767,000 and $787,898,000 at December 31, 2018 and 2017, respectively.

(8) Net Assets Without and With Donor Restrictions

Net Assets without donor restrictions at December 31, 2018 and 2017 consist of the following:

		2018	2017
General operating	$	75,532,348	92,917,819
Board-designated endowment		93,376,014	97,296,310
Net investment in property and equipment		721,762,496	771,300,996
Total net assets without donor restrictions	$	890,670,858	961,515,125

Included in board-designated endowment is $81,170,162 and $84,014,877, at December 31, 2018 and 2017, respectively, of designated funds related to the net proceeds of the sale of the building at 50 West 58th Street. These funds were used to create a board-designated fund, which will provide long-term financial security for the Organization and support the Organization's charitable programs and activities.

(Continued)

Net assets with donor restrictions at December 31, 2018 and 2017 are available for the following:

	2018	2017
Purpose restricted:		
Healthcare services	$ 105,661,034	120,301,788
Research	67,368,579	68,110,581
Capital projects	51,677,054	46,093,506
Fellowships and awards	1,651,076	1,784,787
Advancement of medical services	305,518	471,731
Hadassah Academic College	993,809	580,928
Education	1,935,407	2,332,604
Youth Aliyah	3,393,876	3,858,083
Youth Movement – Young Judaea	326,226	433,242
Israeli Crisis Campaign	1,383,366	1,374,198
Other	4,324,239	5,308,316
Total purpose restricted	239,020,184	250,649,764
Time restricted:		
Deferred giving arrangements	13,491,940	16,493,998
Total time restricted	13,491,940	16,493,998
In perpetuity (endowment corpus):		
Healthcare services	75,679,700	75,793,236
Research	13,161,633	12,975,873
Hadassah Academic College	1,163,733	1,163,733
Education	3,804,875	3,906,877
Youth Aliyah	2,298,366	2,298,366
Hadassah's greatest need	4,413,072	4,413,072
Other	2,494,351	2,502,738
Total in perpetuity	103,015,730	103,053,895
Total net assets with donor restrictions	$ 355,527,854	370,197,657

(Continued)

(9) Endowment Funds

The Organization's endowment consists of approximately 500 individual funds, including both endowment funds with donor restrictions and amounts designated by the Board of Directors to function as endowments without donor restrictions.

(a) Interpretation of Relevant Law

The Organization follows the provisions of the New York Prudent Uniform Management of Institutional Funds Act (NYPMIFA). In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization.

The Organization classifies as net assets with donor restrictions (a) the original value of gifts to the endowment corpus; (b) the original value of subsequent gifts to the endowment corpus; and (c) accumulations of investment returns to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund with donor restrictions is also included until those amounts are appropriated for expenditures by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions reported below include appreciation reported as net assets with donor restrictions (not yet appropriated for expenditures by the board) and the underwater amount of endowment funds (i.e., endowment funds whose fair values are below corpus).

The following table represents the net asset classes of the Organization's endowment funds as of December 31, 2018:

	Without donor restrictions	With donor restrictions	Total
Endowments with donor restrictions	$ —	147,816,844	147,816,844
Endowments without donor restrictions	—	147,816,844	147,816,844
Board-designated funds:			
HMRA	894,438	—	894,438
Hadassah Foundation	11,311,414	—	11,311,414
HWZOA	81,170,162	—	81,170,162
	93,376,014	—	93,376,014
Total endowment funds	$ 93,376,014	147,816,844	241,192,858

The following table represents the net asset classes of the Organization's endowment funds as of December 31, 2017:

	Without donor restrictions	With donor restrictions	Total
Endowments with donor restrictions	$ —	166,284,311	166,284,311
Endowments without donor restrictions	—	166,284,311	166,284,311
Board-designated funds:			
HMRA	973,785	—	973,785
Hadassah Foundation	12,307,648	—	12,307,648
HWZOA	84,014,877	—	84,014,877
	97,296,310	—	97,296,310
Total endowment funds	$ 97,296,310	166,284,311	263,580,621

(Continued)

The following table presents changes in endowments with donor restrictions and endowments without donor restrictions (board-designated funds) for the year ended December 31, 2018:

	Without donor restrictions	With donor restrictions	Total
Endowments with donor restrictions and endowments without donor restrictions (board-designated funds), December 31, 2017	$ 97,296,310	166,284,311	263,580,621
Investment return, net	(3,278,197)	(4,534,643)	(7,812,840)
Contributions	—	700,757	700,757
Amounts utilized for operations	(642,099)	(464,403)	(1,106,502)
Reclassification of funds and other changes	—	(741,567)	(741,567)
Other	—	(13,427,611)	(13,427,611)
Endowments with donor restrictions/board-designated without donor restrictions (board-designated funds), December 31, 2018	$ 93,376,014	147,816,844	241,192,858

Included in other is a fund valued at approximately $13,200,000 restricted for HMO. Such amount was transferred to HMO in 2018 and expended accordingly.

The following table presents changes in endowments with donor restrictions and endowments without donor restrictions (board-designated funds) for the year ended December 31, 2017:

	Without donor restrictions	With donor restrictions	Total
Endowments with donor restrictions and endowments without donor restrictions (board-designated funds), December 31, 2016	$ 85,376,895	147,890,101	233,266,996
Investment return, net	12,482,188	20,688,260	33,170,448
Contributions	—	258,711	258,711
Amounts utilized for operations	(562,773)	(2,443,197)	(3,005,970)
Reclassification of funds and other changes	—	(645,000)	(645,000)
Other	—	535,436	535,436
Endowments with donor restrictions/board-designated without donor restrictions (board-designated funds), December 31, 2017	$ 97,296,310	166,284,311	263,580,621

(Continued)

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds with donor restrictions may fall below the level that the donor or NYPMIFA requires the Organization to retain as a fund for perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported as net assets with donor restrictions. The deficiencies as of December 31, 2018 and 2017 approximated $24,400 and $13,600, respectively. The cumulative values of the original gifts were approximately $318,900 at December 31, 2018 and 2017. The related market values were approximately $294,500 and $305,300 as of December 31, 2018 and 2017, respectively.

(c) Return Objectives and Risk Parameters

The long-term objective of the endowment fund is to preserve the real purchasing power of its assets, while maximizing grant payments and program-related funding, covering expenses, and allowing for inflation.

The investment objective of the fund is to achieve a compound annualized rate of return over a market cycle, including current interest and dividend and capital appreciation, in excess of 5% after inflation, in a manner consistent with prudent risk taking.

(d) Spending Policy

The Organization has a policy of appropriating for distribution each year a percentage of its endowment funds with donor restrictions for spending (4.5% and 3.0% for 2018 and 2017, respectively) unless explicitly stipulated by the donor or relevant law.

(10) Medical Malpractice

HMO provides for potential medical malpractice losses through purchased primary insurance. The current policy has a deductible per event of approximately $2,129,000, with a limit of $6,653,000 per event and $13,307,000 in aggregate for all events. The present value (based on a discount rate of 2%) of medical malpractice liabilities was approximately $98,495,000 and $104,733,000 at December 31, 2018 and 2017, respectively, and is included in malpractice and other liabilities in the consolidated balance sheets. Such amounts exclude the current portion of medical malpractice liabilities of approximately $11,177,000 and $10,964,000 at December 31, 2018 and 2017, respectively, which is included in accounts payable and accrued expenses in the consolidated balance sheets.

Pledged securities provided as security for the contingent liabilities and claims due to medical malpractice of approximately $58,121,000 and $63,549,000 as of December 31, 2018 and 2017, respectively, are included in investments in the consolidated balance sheets. Pledged securities are used for the payment of deductible amount.

(Continued)

In accordance with ASU No. 2010-24, HMO has accrued medical malpractice claims liability and an insurance recoveries receivable in the consolidated balance sheets as of December 31, 2018 and 2017. Such amounts are included in prepaid expenses and other assets and malpractice insurance as follows:

		2018	2017
Estimated long-term malpractice liability	$	102,061,183	109,897,979
Insurance claims receivable		(14,743,649)	(16,128,288)
	$	87,317,534	93,769,691

(11) Accrued Employees' Benefits Liabilities

(a) HWZOA

HWZOA has defined-contribution pension plans for eligible nonunion and union employees for which it contributes a percentage of each participating employee's gross salary. The contributions for the years ended December 31, 2018 and 2017 were $1,160,000 and $1,098,000, respectively.

(b) HMO Pension

HMO's liability for pension to employees is covered by current deposits to the Hadassah Employees Pension Fund Ltd. (HEPF), outside pension funds, and insurance companies.

HMO, together with certain other organizations, participates in a pension plan of the Israeli government. HEPF is a participant in a multiemployer pension plan of the Israeli government, and accordingly, expenses are recognized as payments are made to the plan. The plan covers future retirement pension obligations of an employer. HMO's retirement plan expense is for its employees who began working prior to the year 1995 and participate in the plan, which equals to the required annual contributions to the plans, and is calculated based on 13.5% of the employee's monthly salary.

The following table discloses the name and funded status of the pension plan as of December 31, 2018 (based on the fund's audited financial statements):

Legal name and plan number		Present value of accumulated plan benefits	Market value of plan assets
Hadassah Employee Pension Fund	$	547,693,843	495,540,179

The following table discloses the name and funded status of the pension plan as of December 31, 2017 (based on the fund's audited financial statements):

Legal name and plan number		Present value of accumulated plan benefits	Market value of plan assets
Hadassah Employee Pension Fund	$	622,722,132	511,684,029

The contributions to the plan during fiscal years 2018 and 2017 were approximately $6,304,000 and $6,685,000, respectively.

In the 1960's HMO agreed to increase the rate of employer's deposits by 2.33% (initially 2.5%), above the rate of the ordinary deposits (surplus deposits). The surplus deposits were made to strengthen HEPF. Following the nationalization of HEPF commencing January 1, 2004 (the determining date), the Hospital determined the rate of its deposits into HEPF at the rate of the deposits of other employers to the old pension funds. On February 15, 2007, a claim was received from HEPF, including a demand to continue to make the surplus deposits, at the rate of 2.33%, commencing January 1, 2004.

On January 3, 2019, a decision by the Jerusalem Regional Labor Court was made according to which the Court approved HEPF's claim and stated that HMO is required to increase the deposits to HEPF as was deposited by HMO prior to 2004. In its decision, the court recommended that the parties HEPF, Israeli Government, HMO and the employees, will seek to find a solution and avoid additional legal process. Furthermore, the court requested that a copy of the court decision will be submitted to the Ministers and Directors of the Health and Finance Ministries, so they can assess the ramifications of the court decision. Accordingly, and following a meeting between the parties, HEPF gave its consent for HMO to submit a request for extension of the date for submitting its appeal and a request to delay the execution of the decision. The financial ramifications of the court decision and the legal proceedings cannot be currently assessed. However, HMO's management, based on its legal advisors, is of the opinion that HMO's defense claims were not given proper weight, if any, in the Court's decision and, therefore, has a good case to appeal the decision.

(c) HMO Severance

HMO employee's severance pay is covered by current deposits to the Hadassah Employee Pension Fund. Employees who resign after attaining seniority of at least five years are entitled to, in addition to their pension rights, compensation at the rate of 2.33% of their last salary multiplied by the years of employment. Employees insured with HEPF who resign before reaching retirement age and who liquidate their pension rights are entitled to full severance pay from the Hospital, part of which is to be reimbursed by HEPF.

The accrual for additional severance pay is approximately $56,301,000 and $57,493,000 at December 31, 2018 and 2017, respectively, and is included in accrued employee benefits liabilities in the consolidated balance sheets.

(d) Accrued Sick Leave and Deferred Wages

HMO employees who reach retirement age are entitled to compensation for sick days not used as determined in labor agreements. The accrual has been calculated on the basis of an actuarial calculation. The total liability recorded related to these agreements was $46,181,155 and $51,330,944, respectively, at December 31, 2018 and 2017, and is included in accrued employee benefits liabilities in the consolidated balance sheets.

An agreement was signed between HMO and its employees whereby payments between 2%–4% of the employees' salaries during the period from 2009 to 2010 would be deferred and paid from 2016 through 2018. The balances are linked to the consumer price index (CPI) in Israel and do not bear interest. As of December 31, 2018, the deferred wages to employees was fully paid back. At December 31, 2017, the deferred wages to employees, amounted to $2,868,469 and were included in accrued employee benefits liabilities in the consolidated balance sheets.

As part of the Recovery Agreement (note 15), payments between 2%–5% of employees' salaries during the years 2014–2016 would be deferred and paid beginning in January 2024 on a monthly basis for three years. The balances are linked to the CPI and do not bear interest. As of December 31, 2018 and 2017, these liabilities to employees are approximately $25,433,000 and $28,678,000, respectively, and are included in accrued employee benefits liabilities in the consolidated balance sheets.

(12) Short-Term Debt

The current portion of long-term debt (note 13) was $4,703,597 and $5,099,309, respectively, at December 31, 2018 and 2017. Interest expense was approximately $573,000 and $670,000 for the years ended December 31, 2018 and 2017, respectively.

(13) Long-Term Debt

HMO has the following loans outstanding as of December 31, 2018 and 2017 as follows:

		2018	2017
Long-term bank loan – Tower	$	15,313,702	21,701,346
Less current maturities		(4,703,597)	(5,099,309)
	$	10,610,105	16,602,037

(a) On October 6, 2010, an agreement was signed between HMO and a bank. In accordance with this agreement, HMO will receive from the bank a line of credit in an amount of $51,000,000 to finance the Hospitalization Tower. The maturity of the line of credit is 10 years, out of which in the first 2 years, only interest will be paid while the principal will be returned over the following 8 years. The amount utilized from the line of credit is linked to the CPI and bears interest of 2.45%–4.5% per year.

In order to receive the line of credit, HMO provided the following guaranties:

(i) A lien on real estate assets, and

(ii) Current and future payments from the National Insurance Institute of Israel due to births and premature babies born in the hospital.

(b) Scheduled principal payments on long-term debt are as follows:

Year ending December 31:	
2019	$ 4,703,597
2020	4,703,597
2021	4,209,658
2022	1,696,850
	$ 15,313,702

(c) As part of the Recovery Agreement (note 15), HWZOA and HMRA are committed to raise funds towards the repayment of the above mentioned loan.

(14) Commitments and Contingencies

(a) Line of Credit

The Organization has a $25,000,000 secured revolving credit agreement which matures on March 31, 2020. The revolving credit agreement requires collateral equal to the principal balance, which is held in cash and investment accounts with the lender. There is no outstanding balance as of December 31, 2018 and 2017.

(b) Minimum Lease Payments

On March 18, 2015, Hadassah moved to office space located at 40 Wall Street, New York, New York. Per the terms of the agreement, Hadassah did not make any rental payments until October 2015. However, in accordance with U.S. GAAP, the rent expense is recognized over the lease term. The lease is for a 20-year period commencing on December 1, 2014. Rent expense for the years ended December 31, 2018 and 2017 was $1,645,676 and $1,609,388, respectively.

Scheduled minimum lease payments are as follows:

Year ending December 31:		
2019	$	1,569,950
2020		1,604,581
2021		1,708,475
2022		1,708,475
2023		1,708,475
Thereafter		22,152,457
	$	30,452,413

(c) Legal Proceedings

The Organization is involved in various legal proceedings and claims arising in the normal course of business. Management does not expect the ultimate resolution of these actions to have a material adverse effect on the Organization's financial condition or results of operations.

(15) Recovery Agreement

At December 31, 2014, HMO's unrestricted accumulated deficit, excluding net investment in property, plant and equipment, approximated $218 million. In February 2014, and as a result of financial difficulties caused by continuing operational and cash deficits, HMO submitted a request to the District Court in Jerusalem (the Court) for a Stay of Proceedings status. On February 11, 2014, the Court approved the Stay of Proceedings status in accordance with Section 350 of the Companies Law for a 90-day period and required the trustees and management to conduct intense discussions with the Unions, Government and Hadassah in order to reach a recovery plan.

On May 22, 2014, the Court approved a recovery plan (the Recovery Agreement) for the period of seven years beginning January 1, 2014 through December 31, 2020, and canceled the Stay of Proceedings status. On June 24, 2014, and pursuant to the terms of the recovery plan, the Recovery Agreement was signed by HMO, Hadassah, and the Government of Israel, which includes various operational, financial and corporate governance matters. In accordance with the recovery plan and Recovery Agreement, HMO undertook to transfer to the Government all the Hospital's rights in the properties which do not serve for the functioning of the Hospital and undertook to pledge additional assets and certain sources of income to the Government. The Recovery Agreement is effective as of July 28, 2014. Net income from the Recovery Agreement in 2018 and 2017 includes grants of $26,209,286 and $25,948,499, respectively, from the Government of Israel. Included in prepaid expenses and other assets in the accompanying 2018 and 2017 consolidated balance sheets is a receivable from the Government of Israel in the amount of $5,885,000 and $1,157,000, respectively.

In accordance with the Recovery Agreement, HMO received a long-term loan from Government of Israel with an outstanding balance of $26,613,086 and $28,852,035 at December 31, 2018 and 2017, respectively. The loan bears interest of 3.85% annually. During the years of the Recovery Agreement (through December 31, 2020), according to the terms of the Recovery Agreement HMO undertook to pay

(Continued)

interest only and beginning in January 2021, the principal will be paid in 120 monthly installments. In 2017, HWZOA, HMO and the Government of Israel agreed to freeze the collection of the interest on the loan from June 2017 – June 2018. This period was extended until June 2019. At December 31, 2018 and 2017, advances from the Government of Israel represent $5,658,208 and $6,134,231, respectively, received in advance relating to repayment of SHARAP funds.

In 2008, an agreement was entered into among HMRA, HMO, and the Israeli government to obtain a contribution from the Israeli government for the construction of a new hospital facility for HMO (the HMO Capital Project). In the Recovery Agreement, it was agreed that during the Recovery Period, HMRA and HWZOA (jointly) undertook to transfer annually to HMO during the Recovery Period an amount of $19 million, and that the implementation of the said undertaking of HMRA and HWZOA pursuant to the Recovery Agreement, will constitute implementation of the undertakings of HMRA pursuant to the said 2008 Agreement (the HMO Capital Project). The 2008 Agreement required HMRA to allocate to HMO the annual amount of no less than $19 million for the operation of HMO up to completion of the new hospital facility.

The construction of the HMO Hospital Tower was completed in 2018. The Recovery Agreement also requires HWZOA and HMRA to transfer all funds for the HMO Hospital Tower to an HMO special bank account, which is separate from the remaining financial activities of HMO. Since the inception of the project, HWZOA and HMRA have transferred to HMO annually $19 million for operations and funds for the HMO Hospital Tower.

(16) Liquidity and Availability of Resources

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, all expenditures related to the Organizations' ongoing mission-related activities as well as the conduct of services undertaken to support those activities are considered to be general expenditures.

The Organization's working capital and cash flows have seasonal variations during the year attributable to the concentration of contributions received near calendar year-end. To manage liquidity, the Organization develops and adopts annual operating and capital budgets and maintains operating funds and sufficient liquidity within its investment portfolio accordingly.

To help manage unanticipated liquidity needs, the Organization has a $25,000,000 secured revolving credit agreement, which it could draw upon. Additionally, the Organization has board designated net assets in the amount of $93,376,014 that could be made available for current operations if necessary, subject to required board resolution.

HMO's working capital and cash flows have seasonal variations during the year attributable to the timing of patient service reimbursement from Sick Funds, payments from the Government of Israel under the Recovery Agreement and payment of employment related benefits in the summer and fall. To address the seasonal variations, HMO accumulates cash reserves during the first half of the year to allow for the needed funds for the employment related benefits paid later in the year.

HMO presents to the HMO board annually a 24 – month cash flows forecast that is approved as part of the budget approval process. Cash flow is controlled and monitored on daily basis, and HMO reports monthly to the board of directors on its cash flow liquidity status.

The Organization's financial assets available within one year of the consolidated statement of financial position date for general expenditures are as follows:

		2018
Financial assets at year-end:		
Cash and cash equivalents	$	56,679,167
Accounts receivable for medical services, net		135,714,762
Accrued interest income and other receivables		5,913,565
Contributions and bequests receivable, net		26,828,012
Investments		661,873,038
Investments of charitable gift annuities held by Hadassah		46,765,741
Assets of trusts and other split-interest agreements held by others		20,558,402
Total financial assets at year-end		954,332,687
Less amounts not available to meet general expenditures within the next 12 months:		
Contributions receivable due in greater than one year		(10,824,299)
Other long-term investments and collateral		(257,008,021)
Donor-restricted endowment to be retained in perpetuity		(103,015,730)
Future expendable donor-restricted endowment		(44,801,114)
Donor-restricted funds		(1,637,018)
Board-designated funds		(93,376,014)
Add spending rate income		6,797,157
Financial assets available to meet general expenditures in the next 12 months	$	450,467,648
Liquidity resources:		
Bank line of credit (no balance outstanding at December 31, 2018)	$	25,000,000

(17) Subsequent Events

Management evaluated all events that occurred after December 31, 2018 and through July 30, 2019, which is the date the consolidated financial statements were available for issuance, and has concluded that there are no additional subsequent events requiring disclosure.